FINANCIAL SUSTAINABILITY FOR HOUSING COOPERATIVES

AN INFORMATION DOCUMENT TO ASSIST TRAINING AND DECISION MAKING

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1. Introduction

1.1 Objectives and Parameters of this Document

The aim of this document is to provide a source of information for Housing Cooperatives in order that the complex issue of sustainability can be better understood and addressed in the organization.

Sustainability and financial sustainability is an issue that has historically been a difficult challenge for cooperatives in South Africa. If housing cooperatives are to survive they need to take this challenge very seriously, and be pro-active in planning for sustainability.

The focus of this input is on financial sustainability, but clearly there are direct links between financial and non-financial issues. These links need to be understood and are highlighted in the document.

The use of this document is intended as follows:

- As an information and education source for cooperative leadership and facilitators working in the cooperative field
- As a guide for planning and decision making for cooperative leadership
- As a foundation for further training and education of cooperative membership

This document is not designed as a training guide in itself, but can be used as the basis for organizational training.

1.2 The Housing Cooperatives Focus

While many of the issues in this document are of direct relevance to other cooperatives and organizations, even businesses, the focus of the document is on housing cooperatives. The explanation of sustainability issues and examples given in the document will therefore focus on those that relate to the housing field.

It is important that if we say this document is aimed at Housing Cooperatives we understand who we mean by this as there are many different types of housing cooperatives.

These different types include:

- Housing Development Cooperatives (plan and initiate cooperative housing projects)
- Housing Construction Cooperatives (cooperative building of houses by the members)
- Housing Ownership Cooperatives (hold the title deeds of the houses and facilities cooperatively)
- Housing Maintenance Cooperatives (while housing may be separately owned, the housing and neighbourhood is looked after cooperatively).

When considering what type your housing cooperative is, remember:

- Responsibilities can change over time. Your cooperative may start as one type, but change to another type.
- Cooperatives often are not only one type, but take on the roles of more than one type of cooperative.
- A cooperative (like any organization) can have an ongoing role, or it can have a task (or outcome) specific role. After it has achieved its objective it closes down.

Also remember the following about cooperatives:

- A cooperative can be either a primary or a secondary cooperative (a primary serves individual members, where a secondary serves other cooperatives).
- A cooperative can be based on services provided to members (a user cooperative) or based on being a place of employment for its members (a worker cooperative). Of the above types of cooperatives mentioned the construction cooperative is a worker cooperative, while the rest are user cooperatives.

1.3 What do we mean by Sustainability for Housing Cooperatives

`Sustainability' is not a difficult concept to understand. It simply means that the housing cooperative is able to exist year after year without experiencing problems that will lead to its closure.

A Definition of Sustainability: *The planned ability to exist year after year with the capacity to overcome problems while still meeting the core objectives of the organization*

⇒ `planned' : the organization makes plans to ensure it is successful
⇒ `year after year': the organization must both think about today and the future.
⇒ `overcome problems': there are always problems that need to be resolved and a sustainable organization is one that is not surprised by problems.
⇒ 'Meeting core objectives': it is no good surviving as an organization if it is not achieving what it set out to do.

There are obviously many different types of issues that the cooperative will need to consider when it assesses its sustainability. These can be summarized into two main themes:

- Organizational Sustainability
- Financial Sustainability

There are perhaps 7 key issues to consider in **organizational sustainability**. These are:

a) Organizational *vision and plan* for what it wants to do.
b) The plan meets a clear *need* of the members or target group.

c) *Knowledge and skills* for implementing the plan.
d) The *unity* of the organization among its members.
e) A clear *understanding of* organizational *processes*.
f) The organizations *effectiveness* in its operations
g) The organizations ability to `*reproduce*' it leadership and members to replace those that leave.

It an organization assesses its situation in terms of the above points and can truthfully answer positively to each point, the organization will be organizationally sustainable.

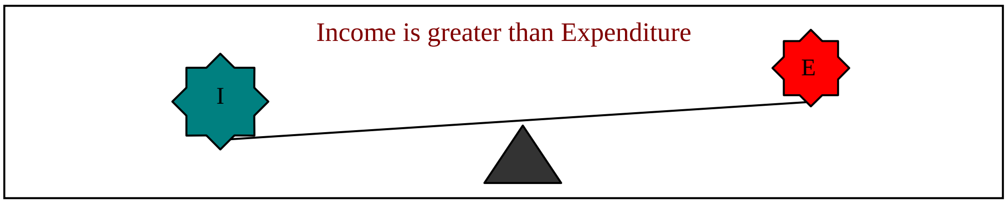
However organizational sustainability is meaningless if the organization is not financially sustainable. In a housing cooperative the financial issues are critical as they affect peoples homes. The money that has to be spent on housing construction, maintenance and services is a large amount. Therefore if a cooperative is financially unsustainable the impact on the members will be dramatic. They could lose there homes and be turned onto the street.

In simple terms **financial sustainability** is about income being greater or equal to expenditure for the housing cooperative over the long term. The cooperative must ensure that for whatever it takes responsibility for, it must achieve that goal with sufficient money at hand, and not finish up with debts it cannot pay.

If a housing cooperative can:

a) successfully carry out its work,
b) meet its objectives,
c) raise as much (or more) money than it spends doing its work,
d) do this year after year

Then it is a sustainable organization!



It is also clear then that organizational sustainability and financial sustainability cannot be separated. The one impacts on the other. These issues will be explained in more detail in the chapters that follow.

1.4 <u>Identifying the Components of Financial Sustainability</u>

The first question that needs to be considered by any cooperative is what all must be evaluated in terms of financial sustainability.

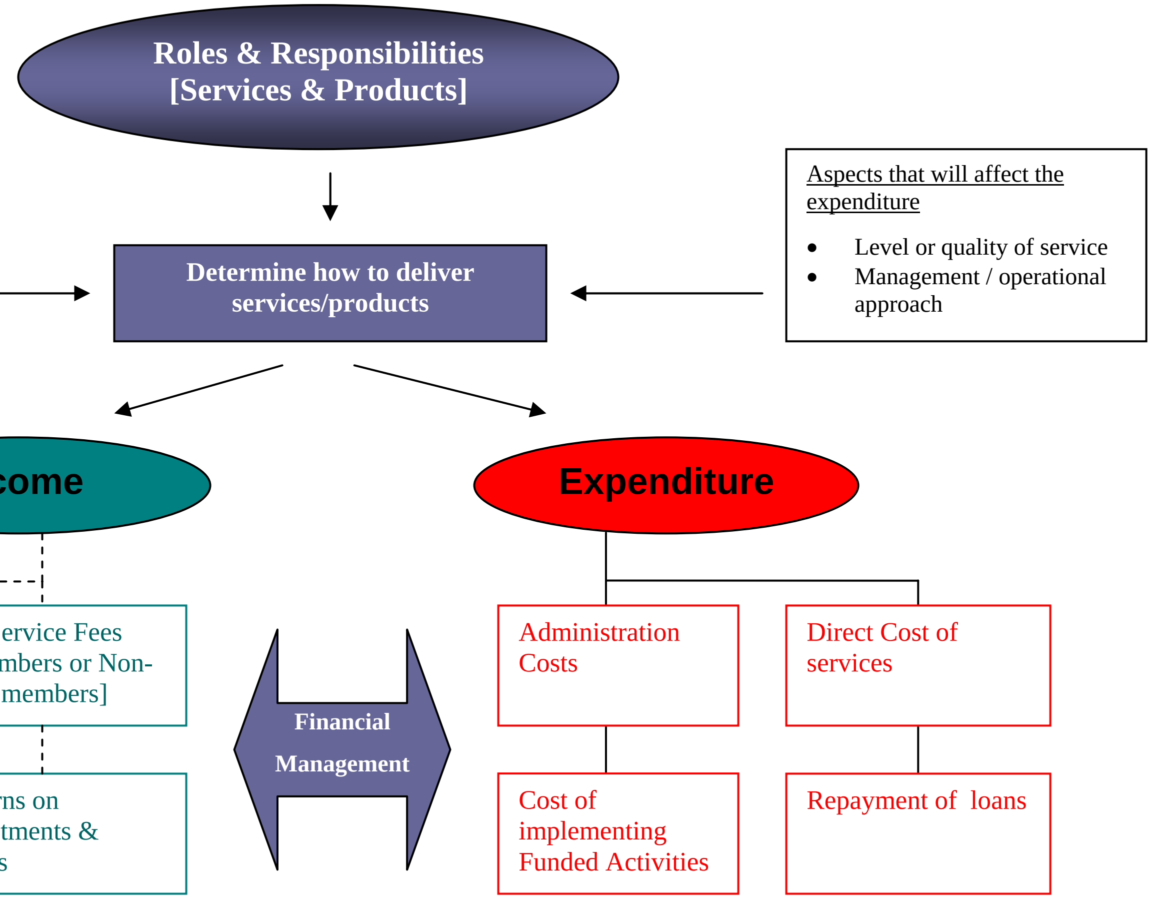
The diagram on the following page shows the main components that will affect an organizations financial sustainability. Each of these components needs to be assessed and require specific decisions on how the organization is going to achieve both its objectives and financial sustainability.

The starting point for any organization is its `roles and responsibilities' that it takes on. This determines all other financial matters. Hence `Roles and Responsibilities' is at the head of the diagram.

Once the roles and responsibilities are decided then *how* these get delivered or carried out must be decided. This is fundamental to financial sustainability as it directly affects the income and expenditure of the Cooperative.

It will be useful to refer back to this diagram from time to time while reading through this document.

Understanding Financial Sustainability



2. The Financial Implications of Roles and Services

2.1 Deciding on Roles and Responsibilities

The roles and responsibilities taken on by the cooperative can be compared to that of services and products offered by a business. It is useful to think of the cooperative as a type of business as it helps everybody focus on the costs of running the cooperative versus the income it receives.

For Example:

- A clothing company makes shirts to sell. The shirt is one of its products. The housing cooperative builds houses for its members. This is one of the cooperatives products.
- A hair dressing salon cuts people hair. This is one of its services. The housing cooperative has a skilled plumber & electrician that can assist members do repairs. This is one of the cooperatives services that it provides.

NOTE: Each of these products and services have their own types of costs and income potential.

The cooperative should be able to offer a range of services and products to its members as a group which are either:

- cheaper than if members tried on their own
- easier to get than if members tried on their own
- of better standard/quality than if members tried on their own

Some Examples of how working as a group can benefit members:

- Housing insurance is always cheaper to get as a group than individually.
- To get a government housing subsidy is always easier to get in a group than if members tried to get subsidies as individuals.
- If members work as a group the neighbourhood (street and open space) environment is always going to be cleaner, safer, and in better condition.

The full range of services and products that the cooperative members *want* will determine the likely cooperatives activities. This decision is usually first made on the basis of need and easing members lives. But it is the duty of the cooperative leadership to look at the financial implications of the members needs and make sure the final decision is based on an understanding of these financial implications.

Some examples of what a housing cooperative can offer include:

a) a house
b) communally owned facilities
c) maintenance services
d) security services
e) social support services (such as child care)
f) Joint payment of municipal rates
g) Group insurance's, loans, etc.

Once we know the activities the coop wants we can start *assessing* how the organization can provide these in an organizationally and financially sustainable way. It is critical to do this assessment before the cooperative proceeds with taking on the responsibility.

2.2 The Cost of Services

In order to do the assessment the cooperative must understand what it means, and what it entails, to take on the responsibility. This means understanding:

- What start up tasks are required?
- What daily tasks are required?
- What occasional or periodic tasks are needed?
- What implications does taking the task on have for the organization generally that may result in commitments of time or money?
- What equipment is needed?
- What skills are needed?
- What amount of time is needed to complete the tasks?
- How do other organizations organize themselves to carry out the tasks?

There is never only one way of doing any task. There are usually a few different ways. But which is the best for the cooperative? The choice of how the task is carried out will have both time, capacity and financial implications.

The choice of what roles to fulfill and how a task is carried out therefore has a cost associated with it.

Different Ways of Doing Things & the Implications
Example: The Task of Savings Collection

1. The members are organized into groups and each group elects a volunteer to collect the money and take it to the cooperative. The cooperative treasurer (also a volunteer) records the savings against each members name & then banks the money.

   Costs: Travel fare for the organizers to the office, travel fare for the Treasurer to the Bank.
   Volunteer Implications: Time of collectors from each group and lots of time for the Treasurer.
   Implications for member: No time spent, no costs incurred, but no real control over what happens to money once handed over.

2. The members are organized into groups and each group elects a volunteer to collect the money. The volunteer banks the money and gives the deposit slip to the Treasurer, along with the breakdown of members contributions to the deposit. The Treasurer simply records the members savings from the list.

   Costs: Travel fare for the organizers to the bank and then the office, High bank charges for many deposits.
   Volunteer Implications: Lots of time for collectors from each group, less time for the Treasurer.
   Implications for member: No time spent, no costs incurred, but no real control over what happens to money once handed over.

3. The members bring in their savings to the cooperative office individually. Here a paid administrator records the money handed in and gives the member a receipt . At the end of the day the administrator banks the money. At the end of the week the administrator gives the Treasurer a summary report of all deposits and the total in the bank.

   Costs: Travel fare for each member to the office, travel fare for the administrator to the Bank, salary for the administrator
   Volunteer Implications: Travel time for each member, very little work for the Treasurer.
   Implications for member: time and cost implications, but gets a receipt at once to prove that they have handed in money. The Cooperative is accountable not a volunteer.

2.3 The Cost of Organization

One must remember that even just setting up a meeting usually has cost implications as members must travel to the meeting, minutes must be written and distributed, etc. The coop must be aware that how it is organized will affect the running costs. Some times these costs are paid by the organization, sometimes they are paid directly by members.

But there are always limits to what the organization and individuals can or are willing to pay.

The following general organizational functions have costs:

- Meetings – the frequency, transport costs to the venue, venue costs, the number people involved, photocopying of minutes.
- Membership administration – stationary for membership forms, consultation and distributing information to members, travel or telephone costs attending to members problems or new members.
- Financial management – bank charges, stationary for the treasurer, an auditor for the annual report, costs associated with collecting saving from members.

2.4 The Cost Implications for Members

It is very easy for the costs of running a cooperative to add up quickly and become an unaffordable or undesirable burden for members or potential members. For a cooperative to be successful it cannot rely on the cooperative been the `only option' for members. Members must see the value in being part of a cooperative.

There is a cost associated with organization required to run a cooperative. These costs need to be offset with the advantages / savings made through working together. On the direct financial side these savings are made through:

- Cheaper insurance and maintenance rates obtained by getting a `group rate' instead of an individual rate.
- Ability for the cooperative to own its own facilities which are then available for members use at a cheaper rate than normal.

Indirect-financial benefits include:

- Ability to develop the neighbourhood as a whole and not just the individual house (raising capital)
- Ability to deal with financial problems affecting the whole neighbourhood collectively.

Of course there should also be non-financial benefits like greater community cohesion and safety.

One way of ensuring that the financial benefits outway the financial costs is to develop cooperatives of sufficient size. Often the cost of administering a cooperative of 100 units and 400 units will not be significantly different. Therefore the costs to the people living in the larger cooperative will be relatively lower. Similarly the cooperative with 400 units will also have more `group power' when negotiating rates with insurance companies or maintenance contractors & suppliers.

Bigger is not always better, but clearly building cooperatives at too small a scale will place an additional burden on members.

A second important point is that communication between the cooperative and its members is vital. If members don't understand what they are paying fees for, and what benefits they are getting, they are going to be much more likely to default.

3. Assessing Cooperative Income Options

3.1 Types of Income

Many different options for raising money can be identified.

Income raised from members:
a) Member administration fees
b) Member payments for services / products
c) Issue of shares
d) Loans from members

Income raised by other means:
e) Non-member payments for services / products
f) Fixed Asset Leases
g) Grants, subsidies or donations
h) Preference Schemes
i) Returns on investments
j) Loans
k) Fundraising

a) Membership Fees are what organizations charge their members each year for that person to be a member. The organization usually sets its annual membership fee at its AGM. Some organizations also have a once off joining fee in addition to the membership fee. These fees are usually used to pay for the basic administration of the organization (to cover stationary, bank charges, telephone calls etc.).

No organization should exist without a basic membership fee.

b) Member payments are usually based on members paying for something supplied by the cooperative or for something done for them by the cooperative. This is what we know as the `service charge' or the `purchase price'. The cost for members is usually set very close to the direct cost incurred by the cooperative, and the cost is not aimed at making a big surplus.

Member payments are usually required for monthly or ongoing costs such as municipal services and maintenance.

c) Issue of Shares by the cooperative. The issuing of additional shares can raise money to finance the capital for specific projects. However the cooperative would have to have a plan as to how it is going to recover so that members can be paid out when they leave the cooperative. However not all the members will leave at the same time so only a portion of the share capital needs to be kept in cash savings. But the utilization of share capital for operating costs by the cooperative would be extremely negligent on the part of the Board.

d) Loan Capital from members would be similar to share capital but with one big difference. A loan would be for a fixed period where after all the money would have to be repaid. Recovery of the funds spent by the cooperative would therefore have to be carefully planned. One option would be for this loan only to be repaid when a person leaves the housing cooperative. The person coming into the housing cooperative would be responsible for paying this money.

e) Non-member payments are where the cooperative sells its services or products to non-members. Usually this will occur in a situation where the cooperative body is already providing the services to its members, but extents the service to others. In these cases the service will be charged or costed at a higher rate than for members to make a surplus on the activity.

Examples or such activities could include housing maintenance services, or the use of community facilities by non-member households.

A cooperative can make good money from non-member payments, but can also run the danger of directing its energy into activities which are not its real function. Remember the role of the organization is not to raise money, but about housing services for its members.

f) Grants, subsidies or donations are best sought for once off or short terms activities. Once off activities would include the actual housing construction process itself, capacity building for staff, equipping an office etc.

It is usually a high risk for any organization to try pay for its operating costs from grants or donations. Grant money is almost always temporary support. It is also usually available for pilot projects, but donors expect projects to become financial sustainable without grant support.

An organization which runs its core functions off grants is bound to face a financial crisis sooner than later.

g) Leasing of Fixed Assets (long-term) is a good way to make income without an extra burden on members. But it does mean the cooperative has to have assets. The assets are called `Fixed Assets' because they cannot be moved. Such assets could be a shop or office or it could be open land on which a businessman sets up his own operation. In such cases the Cooperative will charge a rental. Such options should be discussed and incorporated into the plans that are being drafted by the town planner.

Such options are good for organizational sustainability, but usually require good management skills and experience.

h) Preference Schemes are the result of the cooperative making arrangements with other businesses to give those businesses preference. This means the cooperative members agree to shop or use that businesses services. In return the business agrees to offer discounts to the individual members (which helps the individuals but doesn't raise income for the coop), or alternatively the business gives a percentage of the income from purchases from the members to the cooperative organization. For the scheme to work both the cooperative and the business must benefit. The bigger the cooperative the better a preference scheme is likely to work.

i) Returns from Financial Investments are a very safe way to fund the operations of a cooperative. Such investments could be rental property, fixed deposits in the bank, or shares bought on the stock market. The return then comes in the form of monthly rentals, interest on deposits, or share dividends. However for investments to bring in significant returns it means that large amounts of money have been invested. Only very rich cooperatives will be able to utilize this option.

j) Income from a loan (from a finance institution) is also a high risk approach to financing the cooperative. Loans must be repaid with interest. Therefore it is only advisable to utilize loan money to finance once off development, and only after checking that members will be able to afford the additional charges to pay back the loan.

To utilize loan money to pay for monthly expenses will be inviting disaster on the cooperative.

k) Fundraising from the public is a way of occasionally generating extra income. This strategy is often used by welfare, church or sports groups. It can involve a wide range of activities including raffles, competitions, holding dances, or sales. Fundraising often involves getting small donations for prizes, and requires members to volunteer their time to organize the event. It helps if your cause is seen as a `worthy' cause by the public. However fundraising is a skill that takes time to learn, so initially only small amount are likely to be raised for a lot of effort, but over time fundraising can be a useful strategy to pay for once off costs.

Fundraising is a good strategy for involving members in volunteer activity.

3.2 Factors That Affect Income Potential

There are various issues which affect income potential that the cooperative (and all its members) need to consider when calculating potential income. The most important of these are.

a) Membership Affordability

Membership affordability is the cornerstone for any cooperative organization. Products and services offered have to be affordable to members. That is members must have sufficient income to pay for those services.

If a cooperative has members who can't afford to pay for the services its income will always be less than its expenses. This means the cooperative will end in debt and services will have to be discontinued.

The norm that financial institutions use for assessing middle income people is that they can afford to spend 25% of their household income on their home. However for poor people it is best to work on 15 to 20% of household income to go towards their home. This is because people cannot afford to spend less on food and transport, even if they try for a few months just to be part of the project.

This means that if a family has a monthly income of R1000 then they should not spend more than R150 to R200 on paying for housing services.

b) Skills and Resources

All the skills and resources available to the cooperative are important as they can improve the coops income generating potential. This is particularly true if the coop is selling its services to non-members, but is also true for fundraising and asset leasing.

c) Normal or acceptable rates

The cooperative cannot just set a price for its services in relation to its costs. Members are going to look at the price of products or services and see whether they are value for money, or just plain expensive. Therefore the cooperatives rates or charges must be competitive to others offering the same or similar things.

The importance of this is that the cooperative must find the cheapest way of delivering services properly. If other businesses can offer a good service cheaper than the cooperative as an organization, the coop should consider using this option. Members will get disgruntled if they are paying more just because they are members. Membership is meant to be an advantage not a financial disadvantage.

c) The Environment

Other issues that need to be considered relate to the broader environment. In other words what opportunities or threats are there:

- Are members getting richer or poorer? (Taking a survey once a year on how many members in the houses are employed will be a good indication of this).
- Are prices stable or rising quickly?
- Are donor organizations more or less interested in your situation now than previously?
- Are the cooperative services more or less in demand now?

A consideration of these issues will give an indication of whether the cooperative will find it more easy or more difficult to raise income from the different sources in the near future.

3.3 Establishing Charge Rates for Services

All organizations, businesses or institutions must have an income to cover the cost of their activities. Where an organization provides a service or a product there is a charge (the service charge or the price). It is important to carefully work out this charge. The organization does not want to end up in debt or to cheat its members by over-charging them.

When working out the charge the organization will consider the following:

a) The direct cost of providing the service
b) The indirect costs of providing the service otherwise known as the administration cost of running the organization.
c) The price the client or member is willing to pay
d) The desire to make a surplus. Surplus is what money is left over once all the costs are deducted. While the coop may not want to make a surplus on every item it charges for, the goal of building a reserve fund is essential to its financial stability.

Practical Example: Setting a Charge Rate or Price

In this example the cooperative runs a crèche for its members.

a) The direct costs of the creche are as follows:
Wages for a child minder, the electricity and water, food for the children, occasional maintenance for the building, and occasional buying of play things for the children. Lets say this costs R1000.00 per month.

b) If the creche takes 25 children this means the creche must charge R40 per month for each child (R1000 divided by 25 children). The income will therefore just cover the direct costs.

c) However the cooperative also has expenses of R1200,00 a month. These expenses used to be lower but running the creche means the cooperative now has to have extra travel to meetings and has extra bookkeeping work, extra telephone calls and so on. Its members have agreed to pay R5 per month membership fee towards the cooperatives costs (R5 x 200). This brings in R1000.00 per month. So the cooperative decides to raise the extra R200 through the creche. This is called the administration fee for the indirect costs.

d) The creche must now raise R1000.00 plus R200 per month to cover its expenses, if both the creche and the cooperative are to be sustainable. This means the charge per child cannot be R40 but must be R48 per month (R1200 divided by 25).

e) However the cooperative has looked at prices that creches charge in the neighbourhood as sees that they are higher than R48 per child. It also sees that the members using the creche have jobs and probably can afford to pay more.

f) Therefore the cooperative decides to charge the members R50 per month. The extra R2 per child is usually what is known as surplus. In commercial businesses this will go to the owner of the company. In a cooperative this money will go into a savings account and the cooperative members can decide later on how to use it.

The key lesson is that the charge per child is worked out against all the expenses and not just on what members say they can afford. This means the creche is financially sustainable provided the members can afford the R48 per child.

What if the members cannot afford the R48 per child? This will be dealt with the section on a ‘sustainability’ crisis.

4. Sustainability and Volunteerism

4.1 The Need for Volunteer Activity

Most community type organizations rely on volunteers to carry out many tasks whether they be sports clubs, church groups, or civic groups. The members volunteer to assist the organization because they want to help the organization be successful.

Most cooperatives will not be able to afford to carry out many of the roles and responsibilities it wants to take on unless it gets members to volunteer.

Volunteerism is the strategy to bridge the gap that almost always exists between roles and tasks to be carried out and financial resources to do the tasks.

This willingness to contribute is essential the long term sustainability of the organization. If members do not have an attitude that it is their duty to make a little contribution, the cooperative *will* fail some time in the future. It is the role of the cooperative's leadership to facilitate this participation by members. Participation and volunteerism will not just happen without leadership taking the right steps to organize it.

4.2 Advantages and Disadvantages

Advantages of Volunteerism:

- The good thing with volunteerism is that it helps keep the costs of the organization down, and membership fees low. Without volunteers the organization would charge its members so much that only the financially well-off could afford to be members.
- Volunteers also enable the organization to do much more than it could with one or two professionals. Volunteers often can work well in support of professionals.
- Volunteer participation also makes the members feel involved and builds their commitment to the organization.
- The use of volunteers means the organization is a lot less affected by fluctuations of income.

Disadvantages of Volunteerism:

- The problem with volunteerism is that people are often not sufficiently skilled to do the work. Mistakes can be very costly for the cooperative.
- Volunteers sometimes don't want to follow instructions properly. Often people volunteer because they want to be seen to be important or participating, but don't actually do the work properly.
- Volunteers can be difficult to discipline. Because if you do discipline them they can simply stop volunteering.

- Volunteers also have other commitments which they must attend to, so it is sometimes difficult to get things done quickly.
- Volunteers may be reluctant to take on big tasks or expect to get favours or handouts later on.

Advantages of Professionals or Employees:

- If the organization is using paid people to do the work, one expects that the professionals/employees know how to do the work properly. These people must take instructions and carry out the work as the Board of the Cooperative wants.
- Employees and contract professionals have defined responsibilities with defined timeframes which makes planning much easier for the cooperative.
- Using Professionals in particular brings in much needed skills and experience into the process.

Disadvantages of Professionals or Employees:

- The financial cost is the obvious problem for any cooperative. Professionals are always going to cost a lot of money. Employees are also expensive, particularly as the organization has to meet all the legal requirements of the Labour Relations Act.
- If employees don't do their job properly it is difficult to get rid of them.
- Another problem with bringing in professionals is that the person may not understand the cooperative environment, and the may give bad advice or end up not working well with the Board members. The members may loose control of running their own organization to the professional.

So how do we choose?

It is firstly very important to evaluate if a particular task is suitable for volunteers in your organization or not. Some tasks are simply to complex, important, or big to leave to volunteers. The leadership needs to be aware of what skills its members have, what time availability its members have, and how committed its members are to carrying out volunteer work before deciding on how to use volunteers. Secondly the financial situation of the organization is going to be a deciding factor. Professionals or employees are only an option if there is enough money.

Some factors to consider in using volunteers:

Remember that the use of volunteers or professionals is not exclusive (one or the other). They can work together with the professional doing the more complex and management work (such as designing and evaluating a survey) and the volunteers work in the field (such as collecting data).

It is also important to make it clear what is expected from the volunteer, and what support the organization will give the volunteer, in order to prevent confusion and conflict later on. Remember that volunteers may also incur expenses such as transport and food. In such regard the organization may agree to pay a small `wage', but at a rate below the normal employment wage rate. This the members accept as part of their voluntary duty.

Finally the organization may consider volunteerism a requirement of any member. A cooperative may write into its constitution and membership recruitment form that every member is expected to provide some minimum amount of time to assist the organization.

4.3 Developing Volunteerism in the Organization

Members commitment to volunteerism can be encouraged through a variety of different strategies. These include:

- Education: Informing people as to why it is so important for them to volunteer.
- Encouragement by example: The activities of a few people demonstrating what can be achieved always motivates others to join in.
- Recognition: Making sure everybody knows who has made volunteer commitments & the organization expressing its thanks to these members.
- Taking care of the volunteers: This is also important for making sure that the volunteers feel that the organization is appreciative. In the old Xhosa traditions in the rural areas where households all helped a family with the harvest, and then got a plate of food at the end of the day is a good example of showing appreciation & care. But remember the organization must budget for such expenses & it must not slip into a situation where volunteers expect a form of payment.
- Individual Reward: Many organizations encourage members to volunteer and work hard by putting up a small reward or prize for the `best' volunteer.
- Group Reward: Where members know that if they manage to do something they will all benefit from the end result. This could be volunteers cleaning up and making a play park on a piece of open land near their houses. All the parents will benefit as their children will have a nice safe place to play.

Sometimes organizations make it a requirement for members to do a small amount of volunteer work. If the member does not do the volunteer work then they are penalized in some way. Usually this approach only works well in conjunction with the various ways of encouraging volunteerism.

Examples of Tasks Well Suited for Volunteers

Organizational Development

- Recruitment; collection of savings; information or report back meetings or networks; membership administration; membership survey, fundraising; participation on the Board or committees.

Planning & Construction

- Information and report back meetings and networks;
- Provision of labour on construction work to keep costs down; provision of security on sites; child care for parents who are working on the project.

Maintenance & Management

- Cleaning of common space; management of common facilities; street security; collection of fees.

There are many other options of what could be done by volunteers.
What would suite your organization?

5. Financial Sustainability in Each Phase of the Cooperatives Life

5.1 The Cooperative Set Up Phase

The actions (and expenses) involved in the process of setting up the cooperative group includes:

- Membership recruitment
- Membership education
- Membership communication and consultation
- Membership savings process
- Organizational development (setting up committees, administration and other task allocations and systems to run the cooperative).

The work of this phase should largely be undertaken by cooperative members. This means that expenditure can be kept reasonably low, depending on how much activities members are prepared to carry out as volunteers. However certain expenses, such as transport, telephone, and materials for meetings and education cannot be avoided.

A well established cooperative might have a membership coordinator who is paid a small salary. They might hand out educational materials, and hold regular meetings with members in different parts of town. Poorer or newer cooperatives will have to rely on existing members to do the recruiting and education of new members without hand outs, and they may rely on members who can afford the taxi costs to travel to a central location.

Thus the activity or service of setting up a new cooperative is determined by how much money the cooperative can raise for these activities. There are no subsidies which cover this work. So the organization must fit its approach to what money it can raise.

Approaches to raising income could include:

- A membership fee
- Payments out of own pocket (of those going to meetings etc.)
- A savings administration fee
- Obtaining a grant from a benefactor who wishes to support cooperative development.
- For cooperatives that are already established but are expanding, they can consider subsidizing expenses for this expansion work from other sources of income that they have (such as from surpluses made on providing services).

5.2 <u>The Housing Development Phase</u>

The responsibilities (and expenses) involved in the process of planning and building the houses involves the following:

- Land identification and acquisition for the project
- Housing and infrastructure design.
- Neighbourhood design including issues of layout, facilities.
- The application to the Housing Authorities for subsidy support & ongoing liaison with the Department of Housing.
- Training of labour
- Appointment of a contractor and the actual physical building process.
- Financial administration and project management.
- Ongoing membership consultation and decision making.

All these above mentioned activities have financial costs. Besides the direct costs of the building materials, the land may have a cost, the contractor has a cost, and the various professionals will all charge for their services.

From a financial point of view it is important to know:

- What is covered by government subsidies, and what is not, and what the regulations of the various subsidies are. Housing subsidies change periodically, and the amounts vary according to the household income.
- What the household income of members are, so as to establish how much members can afford to save or spend on housing, and what subsidy levels they will quality for.
- What other sources are *strong possibilities* for covering costs towards the project.

On this basis it is possible to establish the estimated total project income.

Next the expenditure must be determined. In other words what is the income going to be spent on. The following must be considered

- What is it that the members want in terms of their housing & neighbourhood.
- The cost implications of the different choices both in terms of development costs <u>and</u> ongoing maintenance costs. This issue is of critical importance for the financial sustainability of the project and the cooperative

Various government subsidies that can be applied for are:

- The Institutional Housing Subsidy (Available for institutions such as cooperatives. Currently at R28,000 for the full subsidy, which is available for households earning under R3500 per month).

- The Project Linked Housing Subsidy (Available for projects where the housing is not owned by an institution. Also set at a maximum of R28,000 per household, but only for those earning less than R1500 per month. For those earning between R1501 and R3500 per month a lesser subsidy amount is available).
- The Establishment Grant for Peoples Housing Process housing projects (currently at R570 per site)
- The Municipal Infrastructure Grant, mainly for bulk infrastructure development.
- A training subsidy from the Department of Labour in order to train the workers on the project.
- Other grants may be available through the municipality for specific neighbourhood facilities. This will have to be negotiated with the local Council, but remember that this will take a long time & the coop project will be just one of many communities and groups making demands on the limited municipal funds.
- There is also a sanitation grant (currently at R2100) from the Department of Water Affairs, but this is only available to households which have not received the housing subsidy).

Other forms of income raising to cover costs in this phase may include:
- Membership savings (towards the housing or facilities)
- Membership fees towards facilitation and meeting costs.
- Payments out of own pocket (of those going to meetings etc.)
- Obtaining a grant from a benefactor who wishes to support cooperative development.
- Loans for a fixed cost.
- Fundraising activities

5.3 The Cooperative Management Phase

This is the phase once the housing has been built and the members have taken occupation of their new homes. Now there are new responsibilities and expenses associated with being a home owner.

These responsibilities/expenses include:
- Paying for services used (like water and sewerage).
- Paying municipal rates (a payment towards the costs of the municipality – like a membership fee because you live in their area).
- Maintaining your house and yard.
- Maintaining cooperative owned and run facilities.
- Financially planning for and dealing with disasters (such as a fire) or major maintenance problems.
- Having discussions and making decisions on how the cooperative is to be run.

Some of these activities can be the responsibility of the individual with no cooperative involvement, or they may be coordinated or managed by the cooperative. This depends on how the members choose to carry out these responsibilities.

However if the cooperative wants to coordinate responsibilities it must have the capacity to do so. This means:

- Having people who have the experience to carry out the task.
- That either those people must be paid or be willing volunteers. If people are to be paid this means the members must contribute extra money. It is obviously cheaper if coop members volunteer to carry out cooperative responsibilities.

Raising income for the tasks for this ongoing phase of the cooperative is almost always going to be based on members and the organization. Subsidies and grants just don't exist for these ongoing tasks. Although the coop may be able to get free support to assist it setting up its systems or office for this phase, but not for the ongoing costs.

If all the tasks are the individual responsibility of members, there is little for the cooperative to do but to monitor and check that everything is working properly and that there are no problems.

However if the members want the organization to coordinate some of the responsibilities then the organization will have to look at the costs associated with those tasks and how it can cover the costs of those tasks.

Options for income generation will include:

- Membership payments (service charges)
- Non – membership fees (cross subsidize some of the members costs)
- Preference schemes

6. Financial Planning

6.1 Why You Need to Budget

A cooperative, like any organization, will have an action plan for the implementation of its activities for the year.

Budgeting is simply the process of putting *anticipated costs and anticipated income* against activities that must be carried out in order to achieve the objectives. In other words the budget is a financial plan based on your knowledge of *activities and costs* which will guide your fundraising or income generation and your expenditure.

You cannot do a budget before you know:
- What your objectives are
- What activities you want to carry out in order to achieve your objectives
- What the potential costs are associated with those activities

The budget will then determined your revenue or income needed, and will set these targets for the year and beyond. It is also therefore an important tool for long term planning.

When sitting down to budget the organization will either be constructing its first budget or building on an existing budget. Obviously it is far more difficult to put together the very first budget than it is to make adjustments to an existing budget. Therefore it is important to take sufficient time, do proper research, and get advice from somebody with experience when putting together a `first time' budgets.

When building on an existing budget it is important to have accurate information of what costs were incurred in the previous year and to decide whether your activities are going to increase or decrease in the new year in relation to each budget item.

6.2 Different Types of Budgets

Small, poor or inexperienced organizations may just have a single budget for the year. This is how most organizations start. However as the organization grows the budgeting process can get more complicated to meet the management needs of the organization.

The organization may split its budget along one or more of the following ways:
- A capital and an operating budget
- A general or overarching budget and specific project budgets
- A single year budget and multi-year budgets.
- Fixed link income-expenditure activities and unlinked income and expenditure activities

a) Capital and Operating Budgets

The capital budget is the money set aside for once off expenses of items that will become assets for the organization. For example the budgeting of childrens play equipment (swings and a slide) on the open space would be put into a capital budget. This would not affect the general financial functioning of the organization. The money for the building of houses would also be in the capital budget.

The operating budget covers all the recurrent expenditure incurred in running the organization. These would be items such as salaries, transport costs, maintenance costs, etc.

b) A General Budget and Specific Project Budgets

The organization may decide that once it has established its general budget it wants more detail for individual projects. This means there will be sub-budgets. This is particularly useful if the organization has to report to individual funders. It is also useful if the organization wants to ensure money is properly spread over its different activities. For example it doesn't just allocate money to transport but each project gets its own transport allocation.

c) Single Year and Multi-Year Budgets

The organization may not be able to plan properly with only a single year budget. For example if it is expanding its membership it may want to preplan for the financial costs and income needs for the next few years. Often funds require a multi-year budget. Even if an organization sets out a multi-year budget it must review and revise its budget at the end of each year.

d) Fixed and Unfixed income and expenditure linked activities

The organization (or its funders) may want or have to link certain income generation activities (or charges) to expenses for that specific activity. In other words activities or services `pay for themselves'. If the money raised is low then the service decreases, if the money raised is high the service increases. This often used for services not all members may want to use. Unlinked activities means the organization will look at all its income and all its expenses before deciding how to allocate its funds.

6.3 Some Important Budgeting Strategies

a) Contingency:

When establishing a budget always work on the basis that the actual costs are likely to be slightly higher than you think. This is because you often don't remember everything or sometimes because of problems work has to be redone. This means you need a small contingency fund to take care of these extras.

b) Reserve fund:
It is important to have a reserve fund for unexpected disasters, breakages or urgent needs. There could be a range of reasons why the organization urgently needs its reserve fund. These would include:

- Unexpected Expenses. While the organization may have a small maintenance fund this fund will not take account of a major breakage. Or the organization may unexpectedly run into a legal problem and need money for a lawyer. These type of items won't be on the normal budget.
- Delays in receiving income. At times income may be delays for reasons outside the organizations control. This means the organization needs the reserve to pay for the day to day costs for a month or two, until the income arrives.

c) Mid-year increases
The cost of most goods increases every year. It is important when budgeting to know when the next expected increase is likely to be. This is particularly important for things like building materials. But also applies to municipal services which are increased each year in June. Although the organization may not be able to predict the amount of the increase at least it can build in an inflation linked increase into its monthly budget.

d) Default or bad debt planning
When planning for income generation it is usual to set the target slightly higher than the amount actually needed. This is because individuals can run into financial problems and fail to pay their debts or settle their responsibilities. Working on a 10% default estimation may be a good estimate for an organization to start, but it should make an assessment of the risk and based on experience adjust the percentage `overcharge'. If the bad debt is much lower than anticipated the organization can always treat this as a saving for the next year, or use the money for something else of benefit to its members. However remember always plan for bad debts or else expect to face continual financial problems.

Example of a Simple Planning and Budgeting Process

Step 1: Establish a action plan for the year with objectives and targets.
Step 2: Look at what expenses have been for these activities based on current experience.
Step 3: Where the organization is unclear about the costs associated with its plan, it must do research into the costs.
Step 4: Look at the different options and methods of raising the finance to pay for the activities. Divide the financing options with estimated amounts into categories of potential successful fundraising (eg. Definite; Good Potential; Unsure).

Step 5: Divide the activities and expenses up into 1st priority (a must for the organization) and 2nd priority (is important but the organization can continue without these), and `Useful' (only if spare funding is available).
Step 6: Try first allocate `Definite' funding sources to 1st priority activities, then Good Potential, and lastly unsure funds to activities you have classified as 2nd priority and `useful'.

7. Financial Management

7.1 What is Financial Management

It is obvious that if an organization does not know what is happened to its money there will be chaos. Very likely funds will run out leaving the organizations with an empty bank account it cannot explain to members and debts it cannot pay.

Financial management is therefore critical to the very survival of any organization. If financial planning is the way the organization allocates money to its priorities and responsibilities, financial management is the way an organization ensures that:

- It does not sink into debt (the treasurer and board as a whole must check to ensure that the income targets are been met and the expenses are not over budget)
- It does not run out of money at any particular time (cashflow can be a big problem for organizations offering services, as they may have to pay for materials or cover transport etc. before any money is collected).
- Its money is not used incorrectly or stolen (The bookkeeper and treasurer will have to check that money drawn out for activities is actually used for those activities and all accounted for according to proper records. The same applies for monies collected)
- It knows what its costs are for future reporting and planning (Records should be able to tell the board what their costs are in relation to each type of activity or service, and how much money was raised in comparison to costs).
- In the long run it remains financially sustainable (The board must monitor trends in the above matters, and take steps to deal with problems).

Your organization’s financial management is therefore:

- A set of procedures for how financial decisions are made for different types of financial activities.
- A set of procedures and records for how expenditure is carried out.
- A set of procedures and records for how income is received and banked.
- The reporting system of all this income and expenditure.
- The assignment of responsibilities, for these activities, to particular staff or members.

7.2 Financial Management Systems

The financial management systems must cover the following aspects of an organizations business:

- Decision making and authorization
- Day to day record keeping
- Monthly reporting
- Annual reporting

These four aspects are all integrated. Monthly reporting cannot happen if there is not a day to day system of recording, and day to day financial management cannot happen if the organization does not know who can make what financial decisions.

- Decision making and authorization is the system of identifying who has what level of authority to make different financial related decisions. Clearly the board will make all major financial planning and expenditure decisions but certain activities cannot wait for a board meeting and are not important enough to waste the time of the whole board. Usually the chairperson and the treasurer have a right to authorize a certain level of expenditure or a certain type of expenditure. A supervisor at a coop run creche may be authorized to spend a certain monthly budget on food and electricity. These are authorizations made by the board. They are aimed at achieving a balance between keeping control and allowing members to do their work without unnecessary delays.
- The day to day procedures must be known to all members who have rights to work with coop money, either collecting or spending. Such procedures will tell the member what information and documentation they must provide to account for their financial collections or expenditure. One common example is that all cheques can only be issued after a cheque requisition form is filled in. This form sets out all the necessary information the bookkeeper and auditor will need to know about the expenditure.
- The monthly reporting is usually the responsibility of the bookkeeper and / or the treasurer. This usually involves setting out all income and expenditure (the income & expenditure statement), and the status of all bank accounts, and loans and debts (both owed to the cooperative and owed by the cooperative).This will tell the board how financially stable the cooperative is, and whether the organization is growing financially or heading towards a financial problem.
- The annual reporting is usually based on the organizations financial year and will be a consolidation of the monthly reports into a single report. The financial year is the 12 month period which the organization selects for budgeting and report. This period must usually be selected when the coop registers and it cannot be changed without informing the Registrar of Cooperatives.

7.3 Legal Requirements for Financial Management

Different legal entities have specific financial management requirements in terms of the law. For Cooperatives in South Africa it is legislated that each coop must submit an audited report on its financial statements each year to the Registrar of Cooperatives. Sometimes for new cooperatives these statements do not have to be audited, but this is a temporary relaxation of the rules for a year or two.

This means that the cooperative must have a bookkeeper who will prepare the basic financial records of the coop. These are then submitted at the end of the financial year to the auditor. The auditor checks the statements for accuracy. This often involves checking the receipts and invoices of items paid, salary slips of any wages, etc. and making sure that these have been recorded properly.

If there is income or expenditure which cannot be checked against records, or the money in the bank does not balance up against the records the auditor may file a report which `fails' the organization. This could lead to an investigation to see if there is any corruption. If this consistently happens the cooperative could be de-registered.

7.4 The Role of the Board in Financial Management

The Board of the Cooperative is responsible for the financial management of the organization. This means that the Board must take responsibility for the outcome of the audited financial report. If there has been corruption the board members can be held personally responsible by the government. The board member therefore has an important role in ensuring proper financial management.

The board has the following direct responsibilities:

- It must ensure that there is a proper budget for the organization at the beginning of there year (financial planning for income and expenditure).
- It must ensure that there are financial management systems for approving and recording expenditure and income on a day to day basis.
- It must ensure that there are competent people to do the job of keeping these records and drafting the monthly reports (bookkeeping).
- It must review these reports in order to understand what the financial situation of the organization is. It must also check up and get explanations on any issues in the report which it does not understand, is not according to the budget, or appears to be abnormal from the usual situation.
- It must appoint an auditor and review the auditors report. The board must sign the auditors report before it is sent to the Registrar.

8 Dealing with a Sustainability Crisis

8.1 Understanding the Problem

The first important step for any organization is to recognize that it has a significant problem in terms of financial sustainability. While this sounds easy, it is human nature to try ignore problems and hope they don't get worse. More often than not, the end result is the collapse of the organizations work.

Recognizing the crisis should not be difficult if the proper financial management systems are in place.

However it is important to not only recognize the problem but also to understand the problem. Different types of problems require different responses. Sustainability problems can be:

- Short term – where a particular situation exists which means that for a few months the organization will be in danger, but after this period the organization should be able to balance its income and expenditure again.

  An example of this would be where the coop employs a full time facilitator on housing construction projects. This person is paid out of the Establishment Grant the organization receives. However there is a 4 month delay between the one project finishing and the next starting. This is then a short term problem where the organization has to pay a salary for 4 months without the money budgeted for this salary.

- Sector limited – Where only a specific part of the organizations work is no longer financially sustainable, but other components are still able to generate sufficient income.

  An example of this would be where the organization runs a maintenance service for its members, but due to rising costs only a few households can afford to use the facility, so the service starts running at a loss. However this problem doesn't necessarily affect the payment of the service charges to the municipality or the functioning of the cooperative. It does mean that the maintenance must now be done by the members themselves, and it is likely it won't be done so well.

- Long term and overarching– where it is clear that the organization is simply not going to be able to sustain its activities and expenditure as they are, and that unless something dramatic is done the organization' activities will collapse.

  This is where the core activities of the housing coop is no longer financially sustainable and this is not a short term problem. The core activities will differ depending on which phase the Cooperative is in.

For example in the Set Up phase if the organization cannot manage and sustain its savings activities then this is a long term crisis. In the Housing Development Phase the situation of the majority of members not been able to afford the development costs would be a such a crisis. And in the management phase the members not been able to afford the service charges and even basis maintenance would be major sustainability crisis.

8.2 Strategies for Dealing with a Sustainability Crises.

Most organizations have a sustainability crisis some time in their histories. This is not unique to organizations, the concept is the same for a private business where it starts making a loss instead of a profit. For the organization and its activities to survive and carry on functioning effectively if needs to take steps that either involve increasing income or decreasing expenditure. These options will need to be carefully considered.

Some options for a short term crises:

a) Reassess the budget for areas that are underspending or generating more income than expected in order to shift budget allocations.
b) Look to activity practices to see if there are not more cost efficient ways of doing the work (achieving the same aim for less cost). This may include using volunteers instead of professionals.
c) Cut back on lower priority activities and expenditure that won't negatively affect the organizations income.
d) Put certain projects on temporary hold that are not as important to achieve in the short term.
e) Make the task the individual responsibility of each household, and not that of the cooperative as an organization.
f) Take a short term loan. This is only a useful approach if the organization is definite that the crisis is short term, and can make up the money to repay the loan. If it can't do this borrowing the money will only delay and exacerbate the problem.

Some options for a sectoral crises:

Some of the strategies for short term problems can be applied to a sector problem, but they will not always work. So additional strategies can be considered:
a) Down scale the work in the sector that has a problem so that its expenses are lowered while providing a lesser service.
b) Try expand the income base of the service that more people use the service. This probably means expanding the user base beyond the members.

c) Terminate the service completely, until some time in the future when it becomes feasible to provide it again.

Some options for a long-term overarching crises:

Most of the various options can be applied, but over the whole organization’s work. However an overarching crises usually means a dramatic change in the way the organization functions and so the solutions have to be applied more rigorously. In such cases the organization has to heavily rely on its own resources (meaning its members carrying out necessary tasks without pay).

If this does not work the organization may be in the difficult position of persuading destitute members to sell or rent out their houses so that households that can afford the service charges can move in.

Another, long term, approach is to assist the affordability base of the members. This means the organization becomes involved in assisting members improve their own level of income so they can afford to pay for their housing needs. However this is a long term strategy and not a strategy that can provide a solution to an organization already in a crises. This approach of assisting members must be started long before any problems occur.

9. Evaluating the Financial Health of Your Cooperative

The financial health of the organization is the direct responsibility of the Cooperatives's Board. The cooperative will also have a bookkeeper and an accountant who will assist with the monitoring and management of the organizations finances.

It is worth noting the following observations from a Social Housing Foundation report[1] on a range of social and cooperative housing projects:

- All the projects reviewed operated at a loss.
- Maintenance allowances were almost always set to low for reality.
- In many cases salaries and wages for staff were extremely high.
- Staff were paid at market related salaries but were unable to do the work they were employed for, and required expensive training.
- Many projects were over-reliant on grants.
- In the main, there has been no increase in income, while costs have increased.

9.1 The financial Status:

The first component of the assessment involves assessing the financial picture. For this the Board will need:

- The annual budget for the current and previous year.
- The previous years actual income and expenditure
- The current years actual income and expenditure
- The monthly financial reports from the current year (prepared by the bookkeeper)

In assessing the reports the following are danger signals that need attention:

- The current budget has grown substantially over the previous budget. If the budget has grown by more that 20% then the organization has to be very clear about its increased income sources.
- The annual expenditure is greater or equal to the income.
- The current income is substantially lower than the previous years.
- The current expenditure is substantially higher than the previous years.
- Lack of savings or reserve funds.
- Months where the actual money in the bank (cashflow) was almost nil, or where the account was overdrawn.
- A high level of bad debts.

If the Board discovers that any of these danger signals applies to their organization, they need to assess why this situation has occurred and

[1] Sustainability Study – Financial Modeling for a Housing Cooperative and Housing Management Cooperative (2004)

what its implications are. A `yes' answer to any of these questions does not automatically mean a crisis for the cooperative, but it could mean a crisis in the future.

9.2 Assessing Trends or Future Situations

The second component of the assessment is more subjective (or evaluative) and focuses on what is happening with the cooperatives key sources of income and expenditure.

One way of doing this is to take the most important sources of income and factors of expenditure and assess these. The most important income sources are likely to be:

- Major Funders
- Members
- Any key services that the cooperative charges for

Funders	How reliant is the organization on a single funder? For how long is the funder committed to the organization? How easy would it be to find an alternative funder if the existing funder had to withdraw? What is the funder's money been used for – once off expenditure items or to pay for the daily running of the coop?
Members	Are membership numbers growing or not? Can members afford the monthly costs? Are members getting poorer or is their income improving? What are the levels of default on payments & what is the memberships attitude to defaulting?
Services	Are the services covering their cost, making a surplus or a loss? What is the trend in regard to the above? Is there any reason to believe that the income or the costs for the service will change by more than 10 to 20% in the next year?

Major expenditure items are likely to be:

- Land and construction costs
- Property rates
- Maintenance
- Staff / administration
- If service charges are dealt with communally this will also be a major expense item.

Land and construction	How much have construction costs gone up over the last period of time? Is the cooperative still able to access housing subsidies from government? Have housing subsidies kept pace with inflation in building prices? Are members still prepared to save money for construction costs?
Rates	By how much has the municipality raised rates over the last

	few years? What is the municipality saying about the increase for this year? Was the payment made on time or did the coop incur interest charges? Did all members pay & how did the coop cover any defaulting by members?
Maintenance	Has the maintenance budget covered the actual work that needs to be done, or is the condition of the buildings and environment deteriorating? Is there maintenance work going to be required soon that will cost a large amount of money that is not budgeted for? What would the Board do if there was a major breakage that required immediate attention? Would there be money in the bank to pay for this?
Staff/Admin	Are the staff \`value for money' for the members and can the members sustain the costs associated with paying for the staff? Can the coop afford to give staff an annual increase and how will this be paid for? Is the organization up to date with all its legal requirements (UIF, tax etc)? Is the administration work of the cooperative been done adequately or is additional capacity required during the year?

If any problems are identified in the course of assessing these aspects the organization will have to consider alternative approaches. These approaches will either mean raising additional finance or reducing the amount of expenditure. If the board is confronted with such problems a careful consideration of the points raised in chapters 2, 3 and 4 would be useful.

10. The Application of These Lessons

Sustainability is based on the two foundations – organizational sustainability and financial sustainability. These are two interwoven elements of a successful organization.

If one reflects back on the Sustainability Diagram (page 7) it is clear that to achieve financial sustainability the organization must have answers to the following:

a) What does the organization want to do (what roles& responsibilities is it taking on)?
b) How will it go about providing such services and delivering the products that the members expect?
c) What are the costs associated with these activities?
d) What are the options for raising the necessary finance to undertake these activities?
e) What are the external factors that are influencing the costs and income situation?
f) How can the organization use membership participation to make up its financial shortages?
g) What management policies and systems need to be in place to ensure success?
h) How will the organization deal with financial problems and crises that will emerge from time to time?

The options and issues relating these questions are discussed in the chapters of this document. However it is important to understand that the document does not provide the answers. Only once the organization has done its own analysis to the questions above will the answers become clear.

It is suggested that one useful approach to developing organizational and financial sustainability is embark on a process that is aimed at:

- ⇒ Educating the leadership so they understand the basics of the questions, ideas and issues contained in this information document.
- ⇒ Workshoping the knowledge whereby the leadership applies these questions to their own organization in order to develop their own answers.

However if there is one `golden rule’ for cooperatives it is that, while grant funders may assist setting up the cooperative, the organization has to be able to sustain itself on a month by month basis through its own resources. These resources are its membership.

Appendix 1: Sample Operating Budget

The sample budget below reflects approximate expenses for a housing cooperative. The cooperative budget balances with very savings or contingency. In other words this budget will mean that should the income and expenditure confirm with the cooperatives estimates the cooperative will be financially stable. But should a major problem occur with maintenance/damages, tenant debt, or unexpected expense the cooperative will have to use its general savings. This shows the importance of building a savings or contingency amount.

Items such as capital raised through share purchases by members are not included in the operating budget as the money cannot be used for annual operations.

Example: Simple Budget For Housing Cooperative (Housing Management Phase)

Income		
Item	Monthly	Annual
Members Charges		
Administration @ R25 pm	5000	60,000
Municipal Rates @ R20 pm	4000	48,000
General Maintenance @ R40 pm	8000	96,000
Insurance @ R20 pm	4000	48,000
Sub-Total	21000	252,000
User Charges (estimates)		
Use of Community hall @125	500	6,000
Household Maintenance team	2000	24,000
Sub-Total	2500	30,000
Fundraising		
Donar Grant for organization dev.		125,000
Members fundraising (estimate)		8,000
Sub-Total		133,000
Miscellanous		
Private fax use (at 1.50 pp)	45	540
Interest from savings	117	1,400
Sub-Total	162	1,940
General Savings from previous years		20,000
Total Estimated Income	**23,662**	**436,940**
Savings / Deficit		28,240

Expenditure		
Item	Monthly	Annual
Administration		
Staff Salary (1/2 day admin)	2200	26,400
Bookkeeper (on contract)	600	7,200
Accountant (end year report)		3,500
Office Expenses	500	6,000
Telephone	600	7,200
Municipal charges	300	3,600
Travel	50	600
Sub-Total	4250	54,500
Fixed Cooperative Costs		
Rates on houses	3800	45,600
Insurance on houses	3800	45,600
Rates & charges on Hall	600	7,200
Insurance on Hall	500	6,000
Sub-Total	8700	104,400
Variable Cooperative Costs		
General maintenance	7600	91,200
Household Maintenance Team	1800	21,600
Sub-Total	9400	112,800
Capacity building		125,000
Provision for Bad Debt	1000	12,000
Total Estimated Expenditure	**23,350**	**408,700**

Note:

A small admin charge is levied by the coop for the management of the insurance and rates payments. This is built into the charge rate given to members.

The provision for bad debts is estimated at 5% of members monthly charges (each member must pay R105 per month excluding municipal water & electricity)